

MULTIMEDIA



UNIVERSITY

STUDENT IDENTIFICATION NO

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MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 3, 2016/2017 SESSION

BAC1634 – FINANCIAL ACCOUNTING REPORTING 1

(All sections / Groups)

31 May 2017
9:00am to 12:00pm
(3 Hours)

INSTRUCTION TO STUDENT

1. This Question paper consists of 7 pages with 4 Questions only.
2. Attempt **ALL FOUR** questions. The distribution of the marks for each question is given.
3. Please print all your answers in the Answer Booklet provided.

QUESTION 1**Part A**

- a. Briefly explain what a regulatory framework is and discuss the reasons why there is a need for regulatory framework in financial reporting. (2 marks)
- b. Define the following accounting concepts and explain for each of their implications for the preparation of financial statements:
 - i. The entity concept
 - ii. Going concern
 - iii. Materiality
 - iv. Fair presentation

(8 marks)

Part B

- a. Aryn & Co owns a freehold building that has a book value of RM1 million on 1st January 2016. The building has an estimated remaining life of 45 years. On this date, the building is sold to Financial Provider for a price of RM2 million. Aryn on the same date enters into an agreement to rent the building for an annual rental of RM20,000 for a period of four years.

At the end of accounting period, the auditors have commented that based on their opinion the building has a market value of RM1.5 million only and the company can rent a similar building will only cost RM10,000.

Required:

Discuss how the above transaction should be accounted for in the books of Aryn & Co for the year ended 31 December 2016. (5 marks)

- b. Company's financial statement should represent faithfully all the underlying transactions that have occurred. Therefore, all transactions and events should have to be accounted for in terms of their substance rather than their legal form.

Required:

Describe the importance of substance rather than legal form is used to account the transactions. (5 marks)

(Total: 20 marks)**Continued...**

QUESTION 2**Part A**

Given below is the list of balances of IOI Bhd as at 31 December 2016.

	Debit	Credit
	RM'000	RM'000
Turnover		22,000
Purchases	7,500	
Inventory at 1 January 2016	1,500	
Employee salaries, bonus and benefits	2,750	
Directors' salaries	600	
Auditors' fees	250	
Dividend received		60
Interest income		35
Depreciation – Property Plant Equipment	250	
Amortisation – Research and Development	325	
Tax paid	2,050	
Advertising expenses	850	
Interest paid	200	
Rent and utilities	620	
Interim dividends paid – Preference dividends	60	
- Ordinary dividends	100	

Additional information:

- Inventory at year-end is RM2,250,000
- 50% of depreciation of property, plant and equipment, employee emoluments, rent and utilities are allocated to selling and the balance is administrative expenses. Amortisation of research and development is charged as cost of sales.
- Tax payable for the current year has been estimated at RM1,850,000.

Required:

Prepare the statement of profit or loss in compliance with MFRS 101 by disclosing the expenses according to the following:

- Nature of expenses (7 marks)
- Function (8 marks)

Continued...

Part B

The Cuti-Cuti Club has been in existence for a number of years. Members pay an annual subscription of RM150 which entitles them to join local trips at a reduced rate. On 1 January 2017, the Club's assets and liabilities were as follows:

	RM
Cash in hand	800
Bank balance (overdrawn)	1,800
Subscriptions in arrears	1,500
Saving account	19,500
Amount owing for tour guide hire	600

Required:

Show a detailed calculation of the Cuti-Cuti Club's accumulated fund at 1 January 2017.
(5 marks)

(Total: 20 marks)

QUESTION 3**Part A**

The following is the statement of financial position for Money Bhd as at 31 December 2016, showing the shareholders' equity information:

	RM'000	RM'000
Issued and fully paid:		
Ordinary shares	20,000	
10% Preference shares	<u>5,000</u>	25,000
Reserve:		
Retained earnings		<u>8,000</u>
Total shareholders' equity		<u>33,000</u>

Money Bhd has purchased a total of 2,000,000 ordinary shares from the open market at RM3.30 per share at 31 December 2016. The acquisition was approved by the shareholders at the General Meeting which was held on 11 November 2016. The purpose of the acquisition of shares is to increase the market price of shares of the company.

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Required:

- a. Show the journal entry to record the share buy-back under each of the following cases:
 - i. All shares purchased were retained as treasury shares (2 marks)
 - ii. All shares purchased were cancelled which is made out of capital (2 marks)
- b. Prepare the statement of financial position extracts showing sections of owners' equity and its related information after the share buy-back exercise for both cases. (4 marks)
- c. State the difference between ordinary shares and preference shares (2 marks)

Part B

Silver Manufacturing Company manufactures electrical equipment for industrial companies. Due to the expansion project, they purchased a five-storey shop-house on 1 January 2015 at the value of RM2 million. The details of the shop-house are as follow:

Purpose	Administrative Office
Useful Life	20 years
Residual Value	RM400,000
Depreciation Policy	Straight Line Method
Market Value	RM2.6 million on 1 January 2016 RM 3.2 million on 1 January 2017

On 1 January 2016, Silver Manufacturing Company paid RM90,000 to construct car park lots.

Required:

- a. Explain the two methods allowed by MFRS 116 for subsequent measurement of property, plant and equipment. (3 marks)
- b. Assume Silver Manufacturing Company choose to value the building using the cost model. Determine the carrying amount of the building as at 1 January 2016 and 1 January 2017. (3 marks)
- c. Assume now that Silver Manufacturing Company choose to value the building using the revaluation model. Determine the carrying amount of the building as at 1 January 2016 and 1 January 2017 if the revaluation is adjusted using the write-off method. (4 marks)

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Part C

- a. Explain how the following cases would be dealt with under MFRS 110.
- A customer made a claim of RM50,000 for losses suffered by the late delivery of goods. Out of the claim of RM100,000, RM80,000 referred to goods due to be delivered before the year-end. (3 marks)
 - The business entered into a favourable contract after the year-end that would see its profits increase by 20% over the next five years. (2 marks)
- b. What are the three levels (or hierarchy) of inputs that prioritise the inputs used to measure fair value under MFRS 13? (5 marks)

(Total: 30 marks)

QUESTION 4**Part A**

Gua Bhd. had the following changes during 2016:

- Issued share capital of 2,000,000 ordinary shares at 1 January 2016.
- Issued warrants entitling the holders to subscribe for a total of 500,000 shares in the company. The warrants may be exercised after 31 December 2020 at a price of RM1.10 per share. The average fair value of shares was RM1.28.
- The company made a rights issue of 1 for 4 at a price of RM0.80 per share on 30 September 2016. The market value was RM1.00 per share.
- The company had paid an ordinary dividend of RM150,000 and a preference dividend of RM90,000 on preference shares classified as equity.
- The post-tax earnings were RM4.5 million and RM5 million for 2015 and 2016 respectively.

Required:

- Calculate the basic EPS for the year ended 31 December 2016, in accordance with MFRS 133. (5 marks)
- Restate the basic earnings per share for 2015. (2 marks)
- Calculate the diluted EPS in respect of the year ended 31 December 2016. (3 marks)

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Part B

Cinta Sdn. Bhd. had a sale and leaseback transaction during the year ended 31 December 2016. The transaction is summarized as follows:

- Cinta has a printing machine with a carrying amount of RM60,000 on 1 January 2016.
- It sold the printing machine at fair value of RM69,737, under a finance leaseback arrangement.
- The lease period was for four years.
- Annual rental is RM20,000 payables in advance.
- Useful life of the printing machine is four years.
- Interest rate in the lease is 10% per annum.

Required:

Discuss the accounting treatment for the above transaction for the year ended 31 December 2016. Prepare related journal entries on the date of transaction.

(10 marks)

Part C

- a. The company needs advice on how to treat the below under MFRS 137:
 - i. An employee of ABC Bhd has suffered a serious injury while working at the entity's plant. The employee took legal action and sought damages of RM500,000. ABC Bhd has taken legal advice and its lawyers is in the opinion that they will not lose the case. Is there a probable future outflow of resources?
(2.5 marks)
 - ii. ABC Bhd is taking legal action against its main supplier XYZ Bhd for unreliable supply of materials which has affected its operation. The lawsuit is in the final appeal. The legal advice is that it is probable that they will win the case and will be awarded RM800,000. Is it possible for ABC Bhd to recognize this item as an asset?
(2.5 marks)

Continued...

- b. The board of directors of Top Bhd decided to close its manufacturing operation in Indonesia and shift its manufacturing operation to Vietnam. The board came to the decision on 15 November 2016. There was a detailed formal plan and the decision was communicated to the management in the headquarters in Hong Kong.

Subsequently, letters were sent to the customers, suppliers and staff on 15 December 2016. The estimated cost of restructuring was RM15 million, including staff retraining of RM2 million. The company wished to provide for the restructuring cost in the financial statements for the year ended 31 December 2016. The plan was implemented in March 2017. How should Top Bhd account for the restructuring cost under MFRS 137? (5 marks)

(Total : 30 marks)

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